**How to Buy Restaurant Business :**

**Finding a Restaurant**

**1****Identify your skills and interests.** Since you already know you want to buy a restaurant, think about what type of restaurant you want, what you want out of the purchase, and what skills you can bring to the table. If you are a great Italian chef, don't buy an established French restaurant. Also, consider if you want to buy the business and keep it running as is, or if you want to purchase it and change the name and menu. At the outset, you also need to think about your strengths and weaknesses. If you are a chef, you might need to hire business associates to help you with the purchase and transfer of ownership. If you are a business person, you might need to hire a chef who can evaluate the kitchen's potential.[[2]](https://www.wikihow.com/Buy-a-Restaurant#_note-2)

* + Making these decisions at the outset will help you make the best restaurant purchase possible. For example, thinking about these things will help you determine what type of restaurant to buy and who you will need to ask for help with the transaction.

**2** **Make a list of features you'd like in your restaurant.** Once you know what you are generally looking for, start putting together the specifics. Do this before you start your physical search. Based on your skills and interests, consider the following:[[3]](https://www.wikihow.com/Buy-a-Restaurant#_note-3)

* + Where do you want your restaurant to be located?
  + How big of a kitchen do you need?
  + What type of equipment do you need?
  + Will you be serving alcohol?
  + Do you want to keep the seller's name and brand?
  + What do you want to interior and exterior of the restaurant to look like?

**3** **Search for restaurants.** At the end of the day, the location of the restaurant you purchase is everything.[[4]](https://www.wikihow.com/Buy-a-Restaurant#_note-4) Take your ideal business model and start looking for physical locations for sale. Some people might try to search on their own while others will hire an experienced real estate agent. If you have made these purchases before, you might be able to find a restaurant on your own. However, if you are unfamiliar with the real estate market in your area, you might want to hire an expert. Whether you hire help or not, use the following information to help you find the best restaurant on the market:[[5]](https://www.wikihow.com/Buy-a-Restaurant#_note-5)

* + What type of menu would you like to have? Obviously, you will not want to buy a Mexican restaurant in the middle of China Town. Consider what type of food you want to make and where the people are that want to eat that food.
  + How will your food be priced? The price of your food will dictate who comes to eat at your restaurant. If you want an inexpensive option, your decision will be based on convenience and location. If you want a more expensive option, you need to think about the income level of individuals in the restaurant's neighborhood.
  + What will your target customer look like? If you want to create a quick lunch spot for the work force in your community, think about buying a restaurant near office buildings. If you want to create a romantic dinner spot, consider buying a restaurant on the water in another romantic location.

**4** **Ask yourself why each restaurant is on the market.** Restaurants are usually for sale for one of two reasons. First, restaurants can be for sale because they are not doing well. Second, owners might be selling because they are too busy to keep the business going. When you are looking for restaurants to buy, ask yourself which bucket each potential candidate falls into.[[6]](https://www.wikihow.com/Buy-a-Restaurant#_note-6)

* + If the restaurant seems to be doing well financially, it might be a great purchase option. These restaurants are perfect for a buyer who wants to keep the same menu, name, and brand. Buying this type of restaurant, however, might not be great if you plan on changing things drastically.
  + If the restaurant is not doing well financially, it does not mean you shouldn't purchase it. However, it does mean you will have to make changes to the restaurant in order to see success. This type of purchase could be good if you are planning on changing the brand and hiring new help.

**Part 2**

**Negotiating the Deal**

**1** **Consider hiring a lawyer.** Once you find one or more ideal restaurants to purchase, you need to approach the owner of those restaurants. Before you do so, consider hiring a commercial real estate lawyer. A lawyer will help you negotiate a deal, conduct due diligence, and close on the purchase. If you have made these purchases before, you probably know someone who can help. If this is your first time buying a restaurant, ask friends and family for lawyer recommendations.

* + If you don't have any luck finding a lawyer by word of mouth, contact your local bar association's lawyer referral service. After answering a few questions about your legal needs, you will be put in contact with various qualified lawyers in your area.

**2** **Contact the restaurant owner.** With the help of your lawyer, contact the restaurant owner and let them know you are interested in buying their restaurant. Ask to sit down so you can discuss the specifics. If the restaurant owner is represented by an agent or lawyer, they will probably tell you to get in contact with them.

* + When you contact the owner for the first time, do so discreetly. The owner's employees may not know about possible sales and the owner may want to keep it that way. Therefore, avoid walking into the restaurant and asking the wait-staff about a possible purchase.

**3** **Discuss what will be included in the sale.** When you sit down with the owner to discuss the possible sale, negotiate what will be included. The more property included in the sale, the more expensive the sale will be. However, when you buy property already installed in the restaurant, you avoid the cost of buying and installing new property. Buying existing property can help smooth the transition, but avoid buying things you do not need.

* + Ask about inventory. Is the seller going to sell their ingredients and alcohol? This might be a good idea if you are keeping the menu the same. However, you probably do not want to buy a whole lot of inventory if you are going to be making changes (e.g., you do not want to buy tomatoes if nothing on your menu will call for tomatoes).
  + Inquire about furniture, fixtures, and equipment. Ask yourself whether you want the restaurant to look the same or whether you want to change things up. If you like the ambiance, maybe you ask to purchase the furniture (e.g., booths, bar stools, tables, chairs). In addition, ask yourself whether you will need all of the kitchen equipment the restaurant currently has.[[7]](https://www.wikihow.com/Buy-a-Restaurant#_note-7)

**4** **Value the business.** Once you know what will be included in the sale, you need to put a value on the business. This first valuation will be used in your letter of intent, which will show the seller you are serious about buying their restaurant. Your lawyer will help you through the valuation process, and they might even hire an appraiser to do the deal. In general, there are two ways of valuing a restaurant.

* + First, you can use the asset-based method. When you use this method, you will simply tally up the cost of every asset the restaurant owns or leases (e.g., real estate, chairs, tables, inventory, cash) and you will come up with a purchase price. This method is great if you are buying the restaurant for its property, not necessarily for its business model or clientele (e.g., if the restaurant is not profitable or closed).
  + Second, you can use the cash flow multiple method. When you use this method, you will find the sum of the owner's salary, perks, net income, and expenses. You will then attach a specific multiplier to the total to get your purchase price. For full-service restaurants, the multiplier is usually 2 or 3. For self-service restaurants, the multiplier is usually 1 or 2. This method is great if you are purchasing the restaurant and plan on keeping it running.[[8]](https://www.wikihow.com/Buy-a-Restaurant#_note-8)

**5** **Decide how the sale will be executed.** In general, the sale of a business can be completed through either an *asset sale* or *stock sale*. An asset sale occurs when the buyer and seller choose what restaurant assets will be bought. In contrast, a stock sale occurs when the buyer purchases an overall majority interest in the business (e.g., through the purchase of stock).

* + Normally, a seller prefers a stock sale while a buyer prefers an asset sale. This is because in a stock sale, the buyer takes over for the seller, which allows the seller to walk away. In an asset sale, the buyer gets to pick and choose what assets they want to buy.[[9]](https://www.wikihow.com/Buy-a-Restaurant#_note-9)
  + You and the current restaurant owner will have to come to an agreement regarding how you want the sale to happen.

**6** **Execute a signed letter of intent.** A letter of intent spells out the the purchase in detail and creates conditions for that purchase to happen. Your letter of intent will set out an initial purchase price, the terms of the purchase and the conditions for the sale.[[10]](https://www.wikihow.com/Buy-a-Restaurant#_note-10) It will usually be up to you (as the buyer) to draft this letter. Once the letter of intent is drafted and signed, both parties will usually have to work in good faith to complete the purchase. However, the letter of intent is not a purchase agreement. It is drafted to get all the information on the table in some formal manner. In general, a letter of intent will contain the following:[[11]](https://www.wikihow.com/Buy-a-Restaurant#_note-11)

* + A clear identification that the letter is a letter of intent. Make it clear that it is not a binding contract to purchase and sell the restaurant.
  + An explanation of how the sale will happen. Determine whether the business will be sold through an asset sale or stock sale.
  + A tentative purchase price.
  + Conditions of sale. These conditions lay out what must happen in order for the sale to go through. Most importantly, it will contain a provision stating that you will need access to certain records (e.g., financial records, lease agreements, and employment contracts) so you can complete due diligence. If you complete due diligence and everything checks out, the purchase will usually go through. If you find something during due diligence that makes you question the purchase, you will usually be able to cancel it.

**Part 3**

**Conducting Due Diligence**

**1** **Examine the business's lease.** Because one of the most important pieces of the purchase is the location of the restaurant, you need to make sure the seller's lease can be transferred to you. To do this, look at the seller's lease and have your lawyer look for "assignment" language. In a lot of contracts, the lease will not be assignable without the approval of the landlord. Landlords can be hesitant to assign a lease to someone else, especially if you do not have prior experience running a restaurant.[[12]](https://www.wikihow.com/Buy-a-Restaurant#_note-12)

* + If you cannot get the lease assigned, you will have to negotiate a new lease or find another location.

**2** **Have the restaurant inspected.** Before you purchase a restaurant, you need to make sure it is in good shape. Hire experts to inspect the physical building, plumbing, heating and air conditioning, and equipment. If you have hired a real estate agent or another professional to help you, they should be able to line these experts up for you. If you are on your own, conduct a quick internet search for possible help. There are often consultants available for hire.

* + When each inspection takes place, make sure everything has been maintained properly and is in good working condition.
  + If equipment is faulty, require that the seller fix it before any sale proceeds.
  + If you fail to inspect everything and buy the restaurant, you may have to pay for repairs on your own.[[13]](https://www.wikihow.com/Buy-a-Restaurant#_note-13)

**3** **Verify that any liquor license will be included in the sale.** Alcohol sales often drive profits in the restaurant business. Additionally, most states and cities only offer a fixed number of liquor licenses. Therefore, you will want to make sure that the seller's license can and will be transferred to you when you purchase the restaurant.[[14]](https://www.wikihow.com/Buy-a-Restaurant#_note-14)

* + In addition to negotiating this with the seller, you might also have to ask your state's liquor control board whether this is allowed.

**4** **Ask about existing liabilities.** You will need to do everything in your power to uncover liabilities the business currently has. Liabilities can be as simple as leases and other bills that are still being paid off. When you buy the restaurant, those debts will be transferred to you. Less common, but maybe more importantly, you also need to look for unpaid taxes, pending lawsuits, and health code violations that the restaurant might have hanging over their head. If you find any serious liabilities, you should cancel the purchase.[[15]](https://www.wikihow.com/Buy-a-Restaurant#_note-15)

**5** **Evaluate the restaurant's reputation.** A restaurant's reputation can make or break its business. If customers love the food, atmosphere, and employees, you might have a recipe for success. However, if the restaurant has a reputation for bad service, bad food, and cleanliness problems, it will be hard for you to make a profit. Ask around town, ask current restaurant employees, and ask ownership about the restaurant's reputation.

* + If the reputation is good, you can usually purchase it without changing much. This way, customers will not recognize the change in ownership and will continue to go.[[16]](https://www.wikihow.com/Buy-a-Restaurant#_note-16)
  + If the reputation is not so good, but you still think the purchase is worth while, you will need to work hard to change the reputation. Changing the restaurant's menu and name are two things you can do to help.

**6** **Look through the restaurant's financial records.** Ask the restaurant owner to send financial statements and tax returns, for at least the past five years, to your lawyer. You will need to look these over and make sure the business is profitable and that taxes have been paid. If the business has not been audited by a CPA recently, ask the seller to have this done.

* + Do not rely on the seller's promises that the business is doing well. Follow up and get the evidence you need to confirm.[[17]](https://www.wikihow.com/Buy-a-Restaurant#_note-17)

**7** **Analyze employee contracts.** If you are planning on purchasing the business and continuing to operate it as is, you will need to know who you will work with and what they are making. You can do this by examining employee contracts. Look to ensure everyone has the skills and experience necessary to help you succeed after you buy the restaurant.[[18]](https://www.wikihow.com/Buy-a-Restaurant#_note-18)

* + Also, make sure the contracts comply with the law. You do not want to inherit a possible employment lawsuit because of a contract you took on.

**8** **Determine what intellectual property will be included in the sale.** This is especially important if you are going to keep the menu, restaurant name, and overall brand. A lot of restaurants will have their name trademarked and might have their recipes protected as a trade secret.[[19]](https://www.wikihow.com/Buy-a-Restaurant#_note-19)

* + Make sure you will take over all of the intellectual property and gain sole ownership over it.

**Part 4**

**Completing the Purchase**

**1** **Adjust the purchase price if necessary.** After conducting due diligence, you likely found things you did not know existed before. For example, maybe the kitchen equipment is in worse shape than you thought, or maybe the rent payment is more than you anticipated. Take all of this new information into consideration and create a new purchase price.[[20]](https://www.wikihow.com/Buy-a-Restaurant#_note-20)

* + Calculate this number carefully because it will be the amount you put in the purchase and sale agreement.

**2** **Set a closing date.** The closing date is when both parties will sign the agreement and complete the sale. You should plan far enough in advance so both parties have enough time to complete paperwork, get licenses, purchase inventory, and do anything else that needs to be done before the deal is finalized.[[21]](https://www.wikihow.com/Buy-a-Restaurant#_note-21) While there is no specific rule, consider setting a closing date that is at least two months down the road.

**3** **Draft the purchase agreement.** Your lawyer will need to do this for you. The purchase and sale agreement is a formal legal document affecting your legal rights and responsibilities. In general, the agreement will contain the purchase price, the closing date, warranties, transactions that must take place before closing, and what expenses there are and who will pay them. The contract will also have various boilerplate provisions about upholding the agreement.[[22]](https://www.wikihow.com/Buy-a-Restaurant#_note-22)

**4** **Sign the contract.** Once the contract has been drafted, send it to the seller and have it signed. The contract will be valid once every party signs it. In addition to the purchase and sale agreement, require the seller to sign a covenant not to compete. This type of agreement will make sure the seller cannot interfere with your business for a certain period of time.[[23]](https://www.wikihow.com/Buy-a-Restaurant#_note-23)

**5** **Transfer ownership of the business.** On the day of closing, you will transfer the money and the seller will transfer ownership of the restaurant. When everything is complete, you will be able to start your business.